

THE ECONOMY OF BULGARIA - OCTOBER 2011

SUMMARY REPORT

Of the Center for Economic Development

Full text of the report can be found at www.ced.bg, and www.manager.bg

MACROECONOMIC DYNAMICS. *The growth of the Bulgarian economy is weak, and given the slowdown in the economies of the country's major partners, a slowdown is to be expected in our economy in the year end. A **trend has started of balancing the growth structure**. On the production side of GDP the contribution of industry will decrease, but will be supported by growth in services. On the consumption side the contribution of net exports will shrink, but the contribution of domestic demand will increase. Growth for **the third quarter** is expected to be in the range of **1-1.5%**, while for **the year** – **below 2%**.*

In order to bind quarterly and annual rates, and to define expectations, we use the dynamics of seasonally not adjusted data. So far our estimates for overall economic growth in the first and second quarters (of 0.5-1% and about 2%) appear to be reasonably close to NSI registered annual growth of seasonally not adjusted data (for GDP, respectively 1.5% and 2.2% of GVA correspondingly 0.6% and 2.2%). The seasonally not adjusted GDP growth in the second quarter on an annual basis is the same as the value added (2.2%) because the item "Adjustments"¹ grows with approximately the same pace (2.1%).

Since September 2011 the NSI has started to publish data on **GDP by production method**, according to Classification of Economic Activities 2008, and presented in aggregate terms according to nomenclature A10.

What are the new points in the new presentation method (according to nomenclature A10) of value added in the economy for the past three years (2008-2010) – the one before the crisis, the year of the crisis, and the first post-crisis year? Data show that in the global financial and economic crisis the only economic sector not affected is that of "*Financial and insurance activities*," since it has continued to grow until now, albeit at a slower pace. In the period 2000 – 2007, even in the crisis 2009, it grows at double-digit pace. Its growth, however, in 2010 – is only 1.2%, and this signals that the sector may hold hidden problems, which may still occur. The share of the sector in GDP is 6.7% for 2010.

During the crisis 2009 for Bulgaria, two of the 10 sectoral groups show positive dynamics of value added: that of "*Professional, scientific and technical research, administrative and supporting activities*" (with a share in GDP of 4.6% for 2010) and that of "*Culture, sports and entertainment; Other activities; Activities of households as employers; Undifferentiated goods-and-services producing activities of households for own use; Activities of extraterritorial organizations and bodies*" (2% of GDP in 2010). It should be noted however, that the first group, after the positive momentum of 2000 - 2007, registered a decline in 2008, followed by growth in 2009, and another drop, be it weaker, in 2010. The second group shows an annual growth since 2002, including in the

¹ Remedies consist of taxes on products (excise duties, VAT) less subsidies on products.

It is obvious that *"Trade, repair of motor vehicles and motorcycles; Transportation and storage; Hotels and restaurants"* (with 16.8% of GDP in 2010 rank second after the group of industry), after having grown on an annual basis in 1998 – 2007, it registered a decline in 2008, which deepened in 2009, and grew in 2010 by 7.6%. It turns out that this is the group with highest growth in 2010, followed by sector *"Agriculture, forestry and fishing"* (4.6%). Groups in other sectors, demonstrate quite lower growth. The industrial group (with a share of 20.9% of GDP in 2010) demonstrates growth of only 1.6%, while for the other groups – it is even lower.

In 2010 the decline is present in only three sectoral groups with total 13% share of value added in GDP for 2010: *"Construction"* (with a share in GDP of 6.4%), *"Professional, scientific and technical activities, administrative and support activities"* (a share in GDP of 4.6%) and *"Culture, sport and entertainment, other activities of households as employers; undifferentiated goods-and-services producing activities of households for own use; activities of extraterritorial organizations and bodies"* (2% share in GDP).

Quarterly dynamics of value added in agriculture by mid-year 2011, compared to last year, is not optimistic in the perspective of the whole 2011. It is unlikely to expect growth for the whole year and if it happens, it would hardly be over 2%.

In *sector industry* expectations are that the trend of positive changes on an annual basis will continue steadily, albeit of decreasing growth, quite possible to achieve growth of around 7% for the whole year.

Quarterly dynamics of *construction* - both on an annual and on a quarterly basis – is not likely to change to sustainable growth by the year end. Most likely it will decline in 2011, though with less than in 2010 (16.7%).

The dynamics in *"Trade ... Transport ... Hotels ..."* in the first half of 2011 is much weaker than in the same period last year. There are indications that higher rates can be expected in the third and fourth quarters, thus the year will end with a growth, though less than in 2010 (which was 7.6%).

In *"Creating and distributing information and creative communication"* the dynamics this year is more moderate than in 2010. It is possible to achieve growth over last year for the whole 2011.

Sector *"Financial and insurance activities"* performs better in the second quarter after two consecutive quarters of decline both on an annual and quarterly basis. For the whole year its growth will probably be like that of last year (1.2%).

In the second quarter there are positive developments in the sector *"Real estate"* both on annual and quarterly bases, however total for the year it is unlikely to grow after the deep decline in the first quarter.

For three consecutive quarters, the group *"Professional scientific and technical activities, administrative and support activities"* grows on an annual basis. The quarterly decline in the second quarter is a signal that in the second half of the year, shrinking growth is to be expected too. For the year as a whole it is still more likely to expect a weak growth, unlike the decline in the previous year (4.2%).

In the first year-half the group *"Government, education, health and social welfare"* registers drops on an annual basis and a weak growth on a quarterly basis. Against the background of current developments so far, there is no indication to expect growth for the year.

Last year the group *"Culture, sport and entertainment, other activities; activities of households as employers; undifferentiated goods-and-services producing activities of households for own consumption; activities of extraterritorial organizations and bodies"* ends with a nearly 10% annual decline. Dynamics in the first half of 2011, particularly in the second quarter, when measurable growth was registered both on annual and quarterly basis, gives some indications for

recovery to growth. It is likely to expect growth for the year, though weak, barely enough to cover last year's decline.

The components' dynamics of the *use of GDP* seems quite contradictory in relation to final consumption and investments, but is quite straightforward regarding exports and imports of goods and services. The profile of growth by the use side in the second quarter has certainly begun to exhaust the effect of net exports of goods and services and increases the positive contribution of final consumption.

Final consumption is growing on a quarterly basis since the second quarter last year with low growth rates quite below 1%. On an annual basis in seasonally adjusted series, it has begun to grow since the last quarter of 2010, and in not adjusted - for the first time low growth was recorded in the second quarter of 2010, but fluctuating afterwards. For the second quarter of 2011 an increase is seen both on an annual (adjusted and not adjusted data) and on a quarterly basis. If growth yoy stabilizes by the year end, then this indicator can be expected to register increase for the year, albeit small, and below 2%.

The dynamics in *investments* is disturbing. On a quarterly basis, they show strong upward trend in the last quarter of 2010, when they reached 8.1 % growth (correspondingly - 3.2 % annual not adjusted growth and 0.9 - adjusted drop) and continued, though weak, growth during the first half of this year. Two numbers are difficult to interpret in the second quarter of 2011 – the annual growth in seasonally adjusted data (8.4%) and the decline in not adjusted (-9.1). Insofar that not adjusted series are considered more relevant to the annual dynamics, we expect that investments in 2011 will drop, though by less, as they did in 2010 (16.5%).

Since final consumption and investments record consecutive growth on a quarterly basis, this is still a sign for possible growth on an annual basis.

Unlike 2010, when the weak growth on the use side was entirely due growth in exports (by 16.2%, and 4 times slower growth in imports - by just 4.5%) and unlike the first quarter of 2011, when growth in exports of goods and services significantly exceeds that of imports, in the second quarter exports growth is much weaker - around 12%, while imports growth is 7.5% yoy. This is the result of sticky/hindered economic growth globally, so similar growth and contraction of exports and imports in the future can be expected.

In the short term the industry will continue to be the driver of growth in terms of the sectoral structure of the economy, already supported by some services, but in terms of demand – it is expected that the shrinking contribution of net exports of goods and services will be supported by stable stop in the decline of final consumption and by decreased drop in investments.

The monthly production data to August 2011 shows that for the third quarter the continuing slower growth of value added in *industry* can be expected on an annual basis. As in the second quarter this could be related to the slowing rates in the manufacturing industry. In *construction*, the decline in output for July and August is relatively low compared to the second quarter and can be expected that in the third quarter, in case of favorable dynamics in intermediate consumption, the value added will again register weak growth, still slightly higher than that in the second quarter (0.9% of seasonally not adjusted data). Since the beginning of the year declines in the construction of buildings are lower than those in civil engineering construction. After 8 months of growth yoy, the turnover in *domestic trade* falls below zero in July and August, which is due to both wholesale and retail trade, and in particular to trade in non-food goods. Retail in food also fluctuates quite close to zero. High rates in automobile trade, which has shown positive turnover since November last year, shrink by 10 percentage points in May - August. It is likely that in the third-quarter the *trade* sector may decline in value added yoy, which also puts under question the growth in final consumption for the period. Expectations are more optimistic for the last quarter of the year, since

the increase in the business climate rates in retail trade in August and September is due particularly to higher expectations for orders and sales in the next three months.

In services, however, *the business surveys* register worse business climate associated with expected deterioration in demand for services over the next three months. If the delay in industry continues, the fourth quarter may possibly end with lower growth than in third one. The *consumer* survey in July shows that they are still rather reserved, after their deteriorated expectations in April (fig. 13). This confirms expectations that ***by the end of the year we would hardly see acceleration in economic growth on an annual basis rather the opposite is more likely to happen.***

As a result of the GDP data by second quarter and monthly data through September, expectations for economic growth in the third quarter are for 1-1.5%, while for the year - less than 2%.

For eight months since the beginning of the year the ***current account*** balance is *positive* at nearly Euro 1.6 billion (4% of GDP). A year ago it was also positive but much lower (Euro 105.1 million or 0.3% of GDP). The main factor for increase of the positive current account balance is the *reduced trade deficit* (by Euro 1,024.4 million), which in January - August 2011 is only 1.5% of GDP compared to 4.5% of GDP a year earlier. The positive balance under *Services* is improving. The negative balance under *Income* slightly decreases. Net receipts from *current transfers* increase - for the eight months, they amount to Euro 1,257.9 million or 3.2% of GDP (Euro 1,057.1 million or 2.9% of GDP a year earlier). ***For the whole 2011 the current account is likely to be above zero.***

Foreign trade remains one of the drivers of the national economy. *Exports (FOB)* continue to grow at relatively high rates - 34 per cent for the period January - August, reaching nearly Euro 13.2 billion (Euro 9.8 billion a year earlier). *The ongoing decline in sales in Western Europe, however, will undoubtedly affect Bulgarian exports* - domestic demand on this major for the country export market is likely to remain weak, not only by the end of this year, but early next year, too. Therefore exports are expected to continue to grow, but at significantly lower rates. The reasons for this development are several: higher benchmark, slowing economic development of major trading partners, falling foreign investments in export oriented industries. The trend for exports growing faster than imports is continuing, which shrinks the trade deficit. *Imports (CIF)* for the period January-August amounts to Euro 14.4 billion (nearly Euro 12 billion a year earlier) and marks an increase of 20.3 percent. *The trade deficit (FOB/CIF)* amounts to Euro 1.3 billion or 3.2 percent of expected GDP, while for the eight months of 2010 it was Euro 2.2 billion, or 6 percent of GDP. *The commodity structure* of trade is maintained and there is no reason to expect any significant change except the impact of international prices. They are namely at the basis of the faster than average growth in exports of raw materials (especially of non-ferrous metals) and energy resources (respectively by 50 and 40 per cent annually). The increase in exports of investment goods is at a slightly faster pace, and given there is no impact on prices and if increase is reported in all subgroups, then the interpretation is that the Bulgarian machine manufacturing companies are coping well on the market. Exports in consumer goods grow most slowly. Increase in imports of raw materials and investment goods is within the average of total imports, while higher prices of energy resources lead to a significant increase in imports on an annual basis (34.5 percent), while reduced household consumption results in lower growth rates in the imports of consumer goods (11.8 percent).

The *geographic structure* of trade strengthens the European orientation of the country. The share of EU countries in exports remains high - 61.7 per cent, growing compared to 2010, of 61.3 percent. In imports the trend is reversed - the share of non-EU countries grows from 57.4 to 58.1 influenced by the high prices of imported raw materials and energy resources. Germany still ranks first in both exports and imports. The sustainable penetration of Bulgarian export companies in new markets such as China, South Africa, Georgia and others is worth mentioning.

According to preliminary data *foreign direct investments (FDI)* into the country in the period January - August 2011 amount to Euro 225.6 million (0.6 percent of GDP), i.e. *only a quarter of those attracted in the same period 2010*, amounting to Euro 926.5 million (2.6 percent of GDP). The most common explanation for the strong withdrawal of investment is related to payments on intercompany loans in accordance with payment schedules, which can be regarded as an expression of the financial health of companies with foreign participation. The reduced inflow of FDI is a natural process in the current economic reality, when there is shifting of investor interest from fields such as trade, finance and construction to industry and energy, highly reduced consumption and uncertain markets. It is difficult to estimate the inflow of **FDI, but they are unlikely to reach the officially estimated 1.5 billion euros in 2011**. Global financial problems, the slowdown in world economic recovery, the complicated situation in Greece, Italy and Spain, are not favourable for increase in the flow of foreign investment. The uncertain economic environment in the country and the limited domestic market do not attract foreign investors to Bulgaria. Low taxes and inexpensive labor are no longer sufficient advantages - in the absence of clearly defined priorities, with poorly functioning judicial system, constantly changing legislation, uncertainty and unpredictability of the economic environment, strong bureaucracy, inefficient administration, and deteriorating education.

After the cumulative and annual **inflation** reached their maximum at the beginning of the year, the downward trend, which started, is still continuing. In five consecutive months through September the reported monthly inflation is around or below zero. In September, the cumulative price increase in the Consumer Price Index, compared to December 2010, is **1.5%** and the annual inflation (September 2011 to September 2010) is 3.3%. The change range of inflation in the Harmonised Consumer Price Index is low (correspondingly HICP 1.4% and 2.9%). The accumulated inflation since the beginning of the year in the price index of the small basket (**1.9%**) is highest among the three indices.

The expectations of the business for dynamics in sales prices are very unstable. After the sharp increase in food and fuel prices in January and February, the March expectations of the business increased (in construction and retail trade, and in April – in the services as well) expectations for increase in sales prices in the next three months. Since July, the trend has been downward. Obviously the market is incapable to absorb continuously growing prices. The inflation expectations of consumers are also decreasing. By the end of 2011 there are no signs for domestic pressure on inflation, and its growth will be driven under the influence of international prices. **It can be expected that the accumulated inflation for the year will hardly exceed 2.5%.**

The number of **employed** continues to decrease annually (*according to data from national accounts*). In the second quarter the number drops by 3.5%, as much as in the first one, i.e. the observed trend of slow decline that began in the second quarter of 2010, seems to stabilise. The decline in employment in the construction sector starts to grow and reaches 11%. The *agricultural sector* also shows increased decline of employed - to 4.1%. In *industry* and in "*Trade ...; transport...; hotels and restaurants*" the decline is shrinking. There is an increase in employment both in the first quarter, but now accelerating, in the three groups of services: "Creating and distributing information and creative communication," "Financial and insurance activities," and "Real Estate."

The economic activity of **people in the age range 15 - 64** (*according to data from the Labour Force Survey*) continues to decline annually. For the second quarter the economic activity rate (relative share of the economically active, i.e. employed+unemployed, related to population in the same age group) is 65.6% and compared to the second quarter of 2010 decreases by 1.3 percentage points, while its first quarter decline on an annual basis is relatively low (by 0.3 percentage points). *The employment rate* in this age group has decreased in the second quarter to 58.2%, i.e. has

The employment rate among people aged 20-64, which is included in the strategy “Europe 2020” has also begun to deteriorate - for the second quarter it decreases by 2.5 percentage points and reaches 63.4%, while its first quarter decline was 2 points from a year ago and it began to decline (its contraction for 2010 was by 3.4 percentage points compared to 2009).

In the second quarter of 2011 **the quarterly unemployment rate** continues to exceed the levels of previous years. Unlike the first quarter, however, when it grew compared to the previous quarter in all age groups except the group “55 plus,” the fact points that growth, albeit weak, based on the previous period, is observed in only one group, in the age group 35-44.

The number of **registered unemployed** persons decreases in September. The employment offices register 309,971 unemployed and the unemployment rate is 9.4%. Since the beginning of the year the monthly registered unemployment is lower than the rates from the months last year, and although it still exceeds the rates of 2009, the trend is of getting closer to their numbers.

The business surveys of NSI by September show that while until the May-June there was some reduction in expected dismissals in the services and construction, they even turned into expectations for employment increase, then in the summer months July-August, and also in September, the expectations turned negative again - for dismissal - and that in the services and construction expectations deteriorate considerably. This deterioration of business expectations for employment is in contrast to the fact that the July consumer surveys record decreased concerns in terms of unemployment over the next 12 months. Most likely, consumer attitudes about unemployment - had they been measured in August and September - would have been more pessimistic.

Expectations are that by the year end the quarterly unemployment (according to NSI surveys) will keep above 11% and the monthly registered unemployment will be around 9.5%.

ENTERPRISE POLICY. In October 2011 the European Commission published a report which once again registers that Bulgaria has **problems with competitiveness**, bureaucracy, lack of innovation, energy efficiency and transport infrastructure. High interest on loans, additional budget requirements and late payments also create serious obstacles to businesses. Cooperation and coordination among research institutions and businesses is still limited. The implementation of existing measures in innovative programs is rather weak, with no major projects in this area.

Absorption of structural funds is still low. A proper implementation of a successful mechanism for management and control of EU funds is crucial for overcoming the problems. Bulgaria must improve its administrative capacity and simplify existing rules and procedures, in order to accelerate absorption of funds in all sectors.

In a continuing **withdrawal of foreign direct investment** from the country, the Bulgaria Investment Agency (BIA) develops a new strategy to attract investments back. It envisages measures not implemented until now, as assigning the right for construction or provision of free land, allowing part of insurance payment costs to be reduced by 50 per cent on prepaid at the beginning of the year income tax, greater powers and responsibilities for active participation BIA in administrative services to investors, resorting to expropriation of private lands for priority sites. The obligation is kept for construction of the inbound infrastructure to the site of the investor, within 20% of the value of the money invested in the whole project. The aim of the new strategy is not only to ensure compliance with the new reality incentives to attract foreign companies in sectors with high added value, but to make all institutions work in closer coordination and for this. Emphasis is placed on the need to improve administrative services of municipalities. The

document identifies perspective sectors that will attract investment - electronics and electrical engineering, mechanical engineering, transport equipment, chemical industry, outsourcing.

The new strategy is still under discussion and it is not clear which of the proposed measures will actually be included in the legislation. There are many objections that it violates the principle of equal treatment of economic entities, that it changes the principles of the tax system, as in practice it differentiates tax rates. Attention has been paid to the fact that all incentives are aimed at new investors, thus putting at disadvantage existing businesses with foreign participation. There are objections against identification of priority sectors. The only thing that is sure to attract the attention of investors is improving the business environment based on the speed and quality administrative services, transparent and efficient judicial system, stable and predictable economic policy.

In July 2011 the EC announced that nearly 7 billion will be invested to promote **innovation** and research. This financial package will be provided within the 7-th EU Framework Programme on Research (FP7). It is expected to create about 174,000 jobs in the short term, and nearly 450,000 jobs and nearly Euro 80 billion GDP growth over the next 15 years. Funding for research in the EU has a leading position on the political agenda and is central to a coherent innovation strategy. The EU needs a strategy if it wants to compete successfully with such large and dynamic countries as USA and China.

However NSI announced data on expenditure for **research and innovation activities** in 2010 in Bulgaria. It records growth of this expenditure, which is entirely thanks to business **enterprises**. They compensate the progressively decreasing resources that the state devotes to science. Thus the structure of research expenditure is gradually changing, as it was extremely unbalanced and burdening to public expenditure.

Despite political declarations that in times of crisis funds for science and innovation should be increased, NSI registers that in the sectors "Government" and "Higher education" there is a decrease in the money for science by 21.2% (from BGN 199.5 million to BGN 157.1 million) and by 2.2% (from BGN 50.7 million to BGN 49.5 million). In 2010 expenditure for R & D reached a total of BGN 420.1 million, up by 16.4% over the previous year. For the period 2006-2010 an upgoing trend in volume is maintained every year. The increase in expenditure for science in 2010 compared to 2009 is mostly due to the increased expenditure in sector "Enterprises" - by 94.7% (from BGN 108.2 million to BGN 210.6 million). The leading position is for sector "Enterprises" with a share of 50.1% of expenditure for R & D activities, followed by sector "Government" with 37.4%, sector "Higher Education" with 11.8%, and sector "Non-profit organizations" with 0.7%.

It is envisaged that in the period until 2013 Bulgaria shall spend Euro 250 million on innovation. These funds will be disbursed under OP "Competitiveness" and will be directed to innovative companies. The funds will be allocated as follows: about Euro 100 million - on technological innovation and Euro over 100 million - on promoting innovative small and start-up companies through cheap loans, guarantee funds and other instruments.

A **Law on innovation** is underway, which will regulate in a new way the activity of the National Innovation Fund. The goal is to have financial resources to be directed to companies who find it difficult to get financial support, but have the potential to implement innovative solutions.

Public procurement. In January-September 2011 the trend from previous quarters, of rising volume of funds allocated through public procurement, continues. This is mostly due to larger number of procedures performed, mainly financed under EU funds. According to PPA and the Ordinance on Public Procurement for the award of small contracts in the nine months of 2011 12,646 contracts have been awarded in the BGN equivalent of over 4 billion (excluding VAT). For comparison, in the first nine months of 2010 these data were 11,190 contracts awarded for over BGN 2.83 billion. According to the subject of the contract, unlike the first six months of 2011,

the largest share of contracts was awarded for supplies, now most contracts are for construction - 45.36%, followed by contracts awarded for supplies - 38.57%, and services - 16.07%.

In July the Parliament adopted at first hearing the **Amendment to the Law on Public Procurement**², which can be adopted later this year on final hearing. The purpose of the proposed amendments is to simplify legislation in the sector and the procurement process, to improve the preliminary procurement control procedures, financed by European funds. The latest EC report on Bulgaria's progress under the Cooperation and Verification Mechanism gives positive assessment of the proposed legislative changes. Yet, it underlines that major challenge in the area is “still the need for significant improvement in administrative capacity and the quality of administrative actions.”

Fight against corruption. Prevalence of corruption in Bulgaria is still high and this is a serious impediment to economic development. This is confirmed by a number of authoritative reports and studies. In the latest *Global Competitiveness Report 2011-2012* of the World Economic Forum published in September this year, corruption again ranks first among the factors hindering business.

The published in October this year by the EC “*European Competitiveness Report 2011*” states that the actions for improving the functioning of the judiciary and the fight against corruption and organized crime should be strengthened, to reduce the negative impact on economic and social development, and on the absorption of EU funds. The document also stresses that for Bulgaria reduced bureaucracy at central and local level is one of the challenges before improving its competitiveness.

In response to criticism in July the government adopted a *National Strategy for Preventing and Combating Fraud and Irregularities Affecting the Financial Interests of the EU for the period 2011 - 2013*, and Action Plan for implementation of this strategy. The strategic goals of Bulgaria in the field of protection of EU financial interests are identified.

Privatization and concessions. Another *amendment in the Privatization and Post Privatization Control Act* was triggered by the so called “Prohibited list.” In the years this list has been changed several times - it has removed some companies, adding new ones, and the list always contains a constant number of companies, many of which of no strategic importance to the economy. Changes now will provide for removal from the list of several public companies: The Diplomatic Properties Agency – ADIS EOOD, “Orpheus Audio-video” EAD, “Military Publishing House” EOOD and “Bulgarian Posts” EAD. The draft was discussed and adopted on first hearing in the Parliament. The opposition parties and the trade unions opposed the idea for privatization of “Bulgarian Posts” EAD, arguing that the future private owner will close 800 unprofitable post offices and the residents of small towns and villages will be deprived of the so called “universal postal service.” The bill is to be put for second reading. According to representatives of the ruling majority between first and second reading “Bulgarian Posts” EAD will be included again in the “prohibited list.”

For years the unsuccessful efforts for restructuring and privatization of the companies of “*Bulgartabac Holding*” JSC, burdened by political disagreements, have delayed the sales process and reduced the opportunity for attracting strategic investors. After two years of efforts, the managers succeeded in completing the transaction. In September 2011 a contract was signed for sale of 79.83% of the shares of “Bulgartabac Holding” JSC. The company property includes

² More detailed information on proposed amendments to the PPA is included in the report of the Center for Economic Development “The economy of Bulgaria, July 2011”

holding cigarette factories in Sofia and Blagoevgrad, the Pleven tobacco processing company and several former cigarette companies, in the process of insolvency or liquidation. The buyer is a company registered in Austria - BT Invest GmbH - which paid the total price of Euro 100.1 million. 20 percent of the amount is payable on the day of transaction, and the remaining 80 percent after authorization by the Commission for Protection of Competition. Two weeks after the conclusion of the contract CPC decided that the acquisition of direct control by BT Invest GmbH on Bulgartabac Holding does not threaten competition on the market and allowed the transaction. The buyer transferred the balance of 80 per cent of the purchase price and the Agency for Privatization and Post Privatization Control transferred to BT Invest GmbH 5,881,380 of shares, which represent 79.83 percent of the capital of "Bulgartabac Holding" JSC. The financial proceeds from privatization will be received in the state budget, and according to the law will be fully allocated in favor of the Silver Fund.

The decision of the Council of Ministers of March 2011, which repeals the ban on keeping the state quota of 34% in the *defense industry* companies, provides opportunities for investment in the sector and its development. A procedure has been announced for the sale of rest of the shares in companies of the defense industry. From "Terem - George Benkovski" Ltd. - 847,416 shares, representing about 34 per cent of the company, and 74,877 shares, representing about 26 percent of the capital of "Terem - Gen. Vladimir Zaimov" Ltd. The majority shares in both companies were sold in 2008. The procedure is in accordance with the restructuring strategy of "Terem Holding." It provides for the privatization of shares in eight subsidiaries, which the holding owns. The Agency for Privatization and Post Privatization Control announced a one-stage public tender for the sale of 769,180 of shares, representing 35.78 per cent of the "Arsenal" JSC, Kazanlak. The company has a full license for trade in special production. The remaining shares are held by "Arsenal 2000" JSC - 63.85 per cent and 0.37 per cent – by physical persons. The competition puts special requirements to potential buyers under the Classified Information Act. Participant in the privatization can be investors, producing weapons, ammunitions and explosives, possessing equity of not less than BGN 40 million for the last financial year, and the amount of revenues from these activities for the last financial year should amount to not less than BGN 40 million according to audited financial statements. The deposit for participation in the competition tender is BGN 3 million. The leading criterion for selecting the buyer is the offered price.

The World Bank did not approve the requests from government loan *for restructuring and reorganization of Bulgarian State Railways*. According to preliminary talks with the international financial institution a loan was expected to be granted of Euro 460 million for the Railways and another Euro 140 million for the National "Railway Infrastructure" Company. The privatization of "Railways – freight" will not be postponed. The Ministry of Transport and Communications has sent a letter to the Agency for Privatization and Post Privatization Control of its intention to privatize the company. The balance value of the assets of "Railways – freight" is estimated at BGN 320 million. The Agency for Privatization and Post Privatization Control opened a procedure for the sale of 100 percent of the shares of "Holding Bulgarian State Railways" - EAD, in the capital of "Railways - Freight Transport" - EAD. The intentions of the government are that privatization should be carried out in one calendar year.

The Ministry of Transport and Communications has again extended the deadline for submission of tenders in the open procedure for *granting concessions of Gorna Oryahovitsa airport* - until 7 December 2011. The deadlines for submission of tenders for the other two open procedures for granting concessions for airports – "civil airport for public use Ruse" and "Cargo area - a distinct part of a civil airport for public use Plovdiv" expire on 31 October 2011.

The intentions of the Ministry of Transport and Communications for public-private partnership include preparation for *concession of two ports on the Danube* - Nikopol and Tutrakan, which is

the Rousse port complex. Competitions are announced for consultants for development of concession analyses for the two ports. The procedures are in accordance with the agreed strategy for development of the transport infrastructure.

The National Concession Register reports 76 concessions granting procedures for the first nine months of 2011. The majority of procedures are for municipal concessions - 72 and 4 procedures – for state concessions. For the same period 34 concession contracts have been signed - for municipal concessions and 12 procedures for municipal concessions were terminated. According to the register data, the total value of contracted investments amounts to Euro 100,310 260 granted for state concessions and BGN 8,018 250.26 - for municipal concessions. Of the 34 concession contracts signed only one is for construction, the remaining 33 are concessions for services.

The control commissions on granted *concessions for beaches* filed their annual report for 2010 before the government meeting. The data show that out of 67 concessions granted revenues are received of BGN 9,566,325. By the year end BGN 9,292,611 has been received, while the remaining BGN 273,714 is interest payments, and penalties on contracts, received until 31 March 2011. The report also registers increased revenues of BGN 1.2 million, compared to 2009.

PUBLIC FINANCE. The accumulated deficit in the budget for the eight months of 2011 amounted to BGN 731.1 million, compared to over EUR 1.5 billion a year earlier, out of which BGN 261.4 come from EU funds payments. The accumulated consolidated revenues as of August amount to BGN 16.2 billion, of which BGN 545.2 million are European funds. The total costs amount to nearly BGN 17 billion, of which the expenditure less the contribution to the EU budget (BGN 466.3 million) is BGN 16.5 billion

The improvement in fiscal performance over the previous year continues, due to continued good performance of indirect taxes - VAT and excise duties, which register annual growth rates of respectively 12.6% and 13.8% in August. The strong performance of revenues from direct taxes continues with corporate taxes rising by 9.4% while those on incomes of physical persons - by 6.7%.

Since the beginning of the second half of 2011, the trend of accrued expenditure contraction on an annual basis is terminated, and by August they are already nearly 1% above their levels last year.

This is mostly due to the social costs which are nearly 4% above their levels last year, and to current maintenance, where in May the trend for contraction of costs accrued as of August was also over, and now they are approximately 3% higher over the same period 2010.

The fiscal reserve amounts to a little less than BGN 5 billion as of August, thus returning to its level of May 2011. Thus it *still remains above the minimum legal threshold* of BGN 4.5 billion. For the eight months of 2011 the reserve has shrunk to a little over BGN 1 billion.

As of August budget deficit represents 37% of the annual target and it seems that government has the *real possibility to do better than the target for a deficit of 2.5% of GDP*. This possibility is facing the real risk of increased costs at the end of the year. *At this stage, however, fears of not achieving the fiscal targets for the year appear unfounded* – as usual the revenues from VAT, excise and income taxes from individuals are expected to perform better in the second half of the year.

Most taxes in the country remain unchanged in 2011, which provides some predictability and comfort for the business. However, this effect was negatively balanced by increased contributions to “Pensions” fund, and increase of the minimum security thresholds and in the minimum wage, an increase of excise duties ahead of the deadline, in accordance with agreements with the EU and the introduction of tax on insurance premiums.

SOCIAL AND HEALTH POLICY. Recent months can be defined as a period without significant changes and reforms in the social and health policies, although there are series of

imperfections in these two areas, weaknesses and a potential for long-term negative impact on the development of the nation and the economy.

The situation on the labor market is very unfavorable, although through subsidized employment programs and the Operational Programme “Human Resource Development” the government manages to keep the unemployment rate in socially acceptable limits and not to allow the labor market to collapse completely in the conditions of crisis. More importantly, however, is investment promotion through better business environment and educational reforms in order to meet the business needs for skilled, qualified and well trained workforce.

In the conditions of high unemployment, incomes pose a problem before the population, and so does the tax and security collection. In 2011 the deficit in the budget of the National Insurance Institute increases significantly, and the question of the financial sustainability of social security in Bulgaria becomes more acute. The envisaged in the last year social security reforms are a step in the right direction, but most likely will be too timid and delayed. It is a question of political will and courage of the government to undertake and gradually solve these problems.

The problems in healthcare continue and are the same year after year. There is a need to mobilize the efforts of experts and civil society, so that healthcare and education become a political priority because failure to do this in these two areas today mean lack of success and low quality of the human capital for decades.

FINANCIAL SYSTEM. In the third quarter of 2011 the *foreign currency reserves generally increase* and the average value is by 2.77% higher over the same period in 2010. Growth is also observed over the previous quarter mainly in the money in circulation and the deposit in “Banking” Department, which grows by 10.79% which is due mainly to the positive revaluations related to appreciation of gold on international markets and to the increased international obligations to financial institutions. *The average size of the monetary base increases significantly* (notes and coins in circulation and liabilities to banks) in the third quarter of 2011 - both over the previous quarter (by nearly 5%) and over the same period in 2010 (by 6.64%) and amounts to BGN 14.01 billion, this value being the highest since the end of 2008.

At the end of August the *main indicators of the banking system improve*. Balance sheet assets increase compared both to May, and on an annual basis, reaching BGN 76.346 billion. Borrowed funds follow similar dynamics. The liquidity of the banking system remains high, the ratio of liquid assets to the amount of liabilities increases to 26.05%. The capital adequacy continues to grow and in June is 18.57%.

In general, *the banking system remains stable and with high liquidity*. The main factors that will affect the banking system in the short term are the still existing uncertainties for the businesses and citizens related to economic recovery after a period of global crisis, which severely limits the demand for credit and *the continuing deterioration in credit portfolios of the banks*, due to reduced solvency of borrowers. Given the fragile indications for recovery of the national economy in the coming months the banking system can hardly be expected to improve.

In the second quarter of 2011 *the decline of the leasing market continues to slow down* and on an annual basis it amounts to 13.97% at 17.50% for the first quarter and 19.27% at the end of 2010. Signed new leases amount to BGN 286.9 million and for a second consecutive quarter report an annual increase close to that in the second quarter of 2009. The largest contribution to positive development of receivables *under new business* comes from financing the *purchase of machinery and equipment*, and vehicles - automobiles and trucks. The lower negative growth in receivables of leasing companies is due to the slowing contraction pace in loans for trucks and commercial vehicles, and for machinery and industrial equipment. *The slowing down in the assets of leasing companies continues for a second consecutive quarter* and the decrease as of June on an annual

basis amounts to 12.98%. Loans continue to hold the largest share in the structure. They also slow down their negative growth rate and for the second quarter of 2011 it is 13.9%, which is the smallest decline since the third quarter of 2009.

The development of the leasing market is directly dependent on the amount of investments in the Bulgarian economy. The drastically reduced volume - both Bulgarian and foreign, limits the demand for leasing services and account for *no expectations for significant change in the sector in the short term*. On the other hand, because of the strong dependence of the leasing business on the state of the market for new cars, if the started recovery in the automotive sector continues, we can soon expect signs of recovery in the leasing market as well.

Growth rates are unstable on the insurance market, although the entire second quarter of 2011, an increase in the premiums by insurance companies is observed, coming from gross premiums. *The general insurance segment* reports an increase only in May - 0.42%, while the next two months again declines on an annual basis. However, *a slowdown in the contraction of premiums is observed over the same month of previous year. The contraction in claims is faster than that of gross premiums written* - this impacts positively the net technical income from general insurance companies sector, which at the end of June accomplishes growth of 73.82 percent yoy. The net income from investment activity also marks an increase on an annual basis. As a result of these positive dynamics the net financial result accomplished by the general insurance sector, exceed by nearly 49% those for the same period 2010. In *life insurance the upward trend is maintained* in the premium revenue charged, although growth rates are slowing - in June and July both on an annual basis, and over the first months of 2011. In the second quarter of 2011 *the technical result of life insurance companies decreases* by 45.30%. The net financial result however increases (by 5.80%) under net income from investments.

The expected increase in the cost of insurance “civil claims for vehicles” will raise revenues of insurance companies, but for the recovery of the insurance market crucial is the state of the real estate and automotive markets and the credit conditions of the banking institutions. Given the very limited demand for real estate, the slow and uncertain recovery of the automotive market and the increased requirements for borrowers in a crisis, *no significant change can be expected in the short term in the condition of the insurance sector*.

Capital Market. All indices of BSE-Sofia register significant declines in the third quarter of 2011. The number of transactions increases over the previous quarter - by 5.46%, but turnover declines by 60.32%, and lots traded decrease by 67.81%. The blue chip index *чипове SOFIX*³ continues to decline in value in the third quarter (16.13% over the previous) and ends at a level of 347.01, which is 10.5-month low. The sectoral index of property investment companies - *BGREIT*, falls by 9.88 % for the quarter to 47.35 points, while *BGTR30* reports a decline of 15.11% to 286.4 points. The broader *BG40* measure decreases by 8.39% over previous quarter end, sharp changes were observed during the period.

Financial and insurance activities continue to dominate the industrial structure of stock turnover, but its share drops from 73.61% in the second quarter to 54.56% in the third. *The share of manufacturing visibly increases* - by nearly 17 percentage points, reaching 36.41%. The shares of other sectors do not report significant changes.

³ Since 19-th September, the index has excluded Doverie United Holding and Enemona, and has included Neochim and M+S Hydraulic.

ENERGY. State Owned Enterprises in the energy sector record in general strong financial results for the first half of 2011, the total profit of the major companies as of 30 June 2011 grows by 103.11% over a year ago. The largest volume gain is that of NPP “Kozloduy” and the Electricity System Operator (ESO). Only “Bulgargaz” EAD records a loss.

NEC and Atomstroyexport signed Appendix № 14, which extends the duration of the Agreement of 2006 for the construction of NPP “**Belene**” until March 31, 2012. This document provides that in the next six months working groups on both sides shall continue their work on the completion of market research, clarification of the financial model and proposal for structuring the financing of the Project by HSBC, the consultant of the Principal NEK EAD. Another important point is the result of stress tests for plants operating in the EU, which are expected to be announced on 09 December 2011, and Bulgaria is willing to analyze the results and recommendations of the EC.

In September, Gazprom and three European companies signed a joint agreement that formally allocates shares in the project **pipeline “South Stream.”** The Russian company remains a majority owner.

According to the project company “Nabucco Gas Pipeline International” the environmental impact assessment (EIA) of the future **gas pipeline “Nabucco”** should be ready by mid-2012. Major problem before the pipeline is the lack of contracted gas supplies for it. The EU negotiates supply with Azerbaijan, Turkmenistan, Uzbekistan and Iraq.

Among the projects to build **gas connections with neighboring countries (Romania, Greece, Serbia and Turkey)** most advanced is the work on the Interconnection Pipeline with Romania and it will likely start working in early 2013. By the end of that year or in early 2014 the interconnection with Greece must be ready as well.

The work on the *draft Law amending the Law on Energy* is under completion. Amendments are necessary because the Bulgarian legislation should introduce the directives related to the Third Energy Liberalisation Package. The directives lead to significant changes both on the gas and electricity markets.

In October MEET published for public discussion *the draft Ordinance for the collection and provision of information through the National Information System on the potential production and consumption of renewable energy resources in Bulgaria.*

TRANSPORT. In the second quarter of 2011 *goods transported by road transport increase* by 3, 589.8 thousand tons compared to the period in 2010. Road freight transport registers the highest increase - 19.8%, representing 71.4% of the total increase. For the same period the work, measured in ton-kilometers, also grows by 17.3%. Data on **water transport** show that the amount of *transported goods* is by 24.4% over the period April - June 2010. This decrease is entirely due to a decrease by 40.5% of goods carried by sea transport. *Work carried out* decreases by 32.8%. **Urban electric transport** data show that in the second quarter this year *transported passengers* and the work done decrease correspondingly by 5.0% and 6.8%.

Large state companies whose principal is MTITC register different financial results for the first half of 2011, the main railway companies in the sector - and “Holding Railways”- EAD and NC “Railway Infrastructure” register once again heavy losses. Particularly serious is the condition of the Bulgarian State Railways. “Port of Bourgas” registers profit, positive financial results of “Port of Varna” decline over the first six months 2010. The profit of “Sofia Airport” also reduces.

The construction companies of the “**Trakia**” **highway** are committed to launch Lots 2 and 3 between Stara Zagora and Yambol and one third of Lot 4: Yambol-Karnobat by the beginning of the tourist season in July 2012. In late July and early August this year construction was launched of Lot 2: Dimitrovgrad-Harmanli (34.6 km) and Lot 1: Orisovo-Dimitrovgrad (31.4 km) **of the**

“Maritza” highway. On October 1 construction of Lot 1 began: Dolna Dikanya-Dupnitsa (approximately 17 km) of the **“Struma” highway**. The deadline for construction of the new lots is 25 months. The selection of contractors is completed for Lot 4 Sandansk-Kulata (15 km). At the end of September the construction on the **“Hemus” highway** linking to Sofia ring road to road terminal Yana (8.46 km). The deadline for completion of the construction works is 22 months. In early August the project for the construction of **Danube Bridge 2** receives formal decision by the EC to extend the financing memorandum till the end of 2012, which means that the facility will be completed with European funding, despite the huge delay from the previous years. In September **NRIC** presented a list of **the projects** to be implemented in the period **2014-2020** for which European funding will be sought. The estimated value of these projects is over Euro 4.67 billion.

TOURISM. National Statistical Institute (NSI) data show that *Bulgaria attracts an increasing number of foreign visitors*. In the first seven months of the year the country has been visited by 3.5 million foreign nationals less the transit traveling. This is an increase by 6% over 2010 in the number of foreign nationals entered Bulgaria, including those possessing property or coming for business. *The number of foreigners coming for holidays or excursions is by 7.3% more* over the same period a year ago. In the second quarter of 2011 *the number of nights spent by foreigners in accommodations increases by 23.6%*. Citizens from Malta, Estonia, Croatia spent more nights in Bulgaria. There is growth in visitors from Australia, Serbia, Republic of Korea, Ukraine and others. Total number of occupied beds in accommodations in the second quarter was 27.0% which is by 5.1 percentage points over the same period last year.

In the second quarter of 2011 over 1 million Bulgarian citizens have traveled in the country and abroad. *Travel of Bulgarian citizens declines on an annual basis*. The total number of persons over 15 years of age traveling for some personal reason decreases by 7.4% over the same period of 2010. Reduction is registered both in the number of people traveling in the country - by 8.9% and also in the number of people traveling abroad – by 1.4%.

Revenues from nights spent in accommodations in the second quarter of 2011 are by 14.4% more than in the second quarter of 2010. Revenues from both foreign and of Bulgarian citizens increase - by 16.1% and 10.3%. For the period January-July revenues from international tourism rise over the first seven months of last year by 5.2% to Euro 1.544 billion

Recent data - for **August** show that over 1 million **foreign tourists** visited Bulgaria for holidays. This is by 1.5% more than in August 2010. Visitors from Macedonia have increased mostly, followed by those from the Ukraine and Russia. Among the visitors from the EU a substantial increase comes from the British market, with almost 43 thousand visitors, by 13% over August 2010, and the Romanian visitors - 93 thousand with an increase of 7%. The largest market for Bulgaria, however, Germany, registers - though minimal - decline by 3% down to 181.5 thousand visitors. Lower in number are visitors from Greece, France, and Austria.

In August, the trips of **Bulgarian residents** abroad are 398 thousand or by 4.8% more over August 2010. Increase in Bulgarian residents traveling is registered to: Romania, Israel, Slovakia, Italy, Russia, Switzerland and others, while trips to: Canada, Portugal, Cyprus, USA, Ukraine and others are less. Most Bulgarians have traveled abroad on business - 38.1%. 34.8% of Bulgarians left the country temporarily for visit, training, and cultural and sporting events. Only 27.1% said they go abroad for holidays and recreation. Analysis of tourist destinations for Bulgarians shows that despite the crisis and the ongoing protests in Greece, it still remains the most preferred place for holidays. In August 2011 the number of Bulgarians traveling to holiday resorts in Greece is 63.8 thousand, at 20.2 thousand a year earlier. Visits to Greece in a year have increased by 28%, which is the largest growth for the past seven months. After Greece, the largest increase is for travels to Romania, there is an increase of 19.6%. Travel to Italy increase by 8.5 percent on an annual basis,

to Russia - 7.2%. Most decrease in the trips of Bulgarians is to the Ukraine, Turkey, Macedonia and Belgium.

Preliminary **estimates** for the summer of 2011 show that the Bulgarian resorts were visited by more tourists than in 2010. *Revenues from foreign visitors for the whole year are expected to be by 4.5% higher.* Estimates are that they will reach Euro 2.7 billion. Revenues from Bulgarian tourists are unlikely to exceed BGN 1.5 billion. Most significant increase is expected from visitors from Russia, Slovakia, Czech Republic, Hungary and Poland. There is a small increase – in visits from Britain and Germany. During this season more visitors have arrived by own private transport from Eastern Europe. For this reason, workers in the sector insist for more efforts to improve road infrastructure. Data for August confirm the initial expectations for more visitors to the Black Sea coast. One reason is the great activity of hoteliers in the spring when the early booking offers. According to experts, the quality of the Bulgarian tourist product has improved. Favorable weather, and the discounts offered by hoteliers at the end of the season added this as well. For these reasons September is also favourable for visits and revenues.

AGRICULTURE. The agro-meteorological conditions have been favorable throughout the year and the *result is a pretty good harvest.* The best result is in *the grain production:* over 25.4 million tons of the harvested wheat exceed expectations, the average yield is higher than last year (406 kg per hectare at 360 kg in 2010); the quality of wheat is good - about 55% from the harvested quantity is of good baking quality (at 23.8% last year). Similar is the situation with barley, sunflower and maize. Higher yields and better quality are expected in *grapes* - experts estimate the harvest as one of the best in the last 10 years not only because of the favorable climatic conditions, but also due to the fact that the fruit yielding has started of many new plants.

After two years of stagnation of *the agricultural land market a substantial increase is observed* since early 2011 - the number of transactions and the price increase, and expectations are that this trend will continue. It is due to the growing demand for food and biofuels in the world, the opportunity to use EU subsidies, and the relatively low (with potential for growth within the 10-15% per annum) of farmland prices. Rents are also growing steadily and are already between BGN 20-30 per acre, which promotes purchases. Main buyers are the lease's and the land funds that for years on bought land for consolidation, thus increasing its value. Now they go on the market not only as buyers but also as sellers of consolidated land. This secondary market has great growth potential, especially as more and more large companies seek opportunities, to diversify their businesses by investing in this sector profits from their core business.

Policy in agriculture is materialized in the financial framework for 2012, presented at the end of September. The sector will take over BGN 1.3 billion, and EU subsidies will amount to BGN 838 million, and national funds – BGN 500 million, including national co-payments per unit of plot, and the payment per cattle scheme, and the state aid for vegetable growing, fruit growing, pigs, poultry and others. The accelerated consideration of projects submitted under the Rural Development Operating Programme over the last 4-5 months is unlikely to reduce completely the risk of under-absorption of funds. The financial and economic crisis confused plans, and many beneficiaries already show delay in project implementation, and requests for extension or even withdrawing from execution. *Now what is most important is that the sector prepares for anticipated changes in the Common Agricultural Policy (CAP) of the EU for 2014-2020* and for its new objectives - food security, environment, innovation, sustainable growth. Envisaged measures, however, suggest raising the industry to a new level, for which the Bulgarian agriculture is not ready and would hardly be able to fully benefit from the proposed funding measures. A lot of time has been wasted and the expected catching up with other member states did not happen so that Bulgarian farmers can now continue equally with others. Bulgaria will again be forced to finance

measures that do not fit into the new objectives and our agriculture will continue to lose competitiveness.

REGIONAL POLICY AND EU FUNDS. The implementation of operational programs. Despite the ambitions of the government, there is some delay in the absorption of funds - for the first 7 months of the year about Euro 70 million less were absorbed over the same period of 2010. Over Euro 378.5 million have been disbursed under the seven Operational Programs for the period January-July 2010, while for the same period this year the amount is less than Euro 308 million. The main reason for the poor results is the large payment of Euro 199 million last year under the JEREMIE instrument for lending to businesses, although the money has not yet reached the businesses.

The government puts its efforts to accelerate the pace - in July only Euro 59 million was paid under the seven Operational Programs. This is close to the highest monthly payment this year - in April, when Euro 61.4 million were absorbed. The least the funds were paid in January – Euro 26.4 million.

According to latest data - at the end of September 2011 were Euro 1,281 million were paid from the general budget of Euro 8,019, provided by the EU for Bulgaria. This is absorption of about 14% -15%. The aim in 2011 is to absorb 20% of European funds. In order to fulfill the plan for 2011 over Euro 486 million have to be absorbed by the end of the year. The Ministry of Finance will have to pay an average of about Euro 100 million per month until the end of the year in order to meet the estimates.

In the next programming period for the European Union - 2014-2020, it is possible that Bulgaria will receive 15% more EU funds. Talks are to be held to specify the volume of funds and the rules for their implementation.

The next programming period will be different from the current one - there will be **reform the management of EU funds** and their utilization. Instead of the current 7 governing body under the seven programs located in different ministries, there will be only one. This will be a State Agency under the Prime Minister. The Central Governing Body will have intermediate units in the six major district cities. They will plan and manage projects to meet the needs of each district. Another change is that many of current government officials working on absorption of EU funds will be working in district cities. Nearly half of the civil servants employed for absorption of EU funds will be working in the country outside Sofia. Currently 1,900 officials work with European programs, all in Sofia. Only under OP “Regional Development” OP “Competitiveness” have mobile teams traveling around the country.

After 2014 the work with EU funds model will be radically altered, which will require a more flexible management system. Similar is the way of work in the nine EU member states, including Poland, Hungary, the Baltic States, and others. The new organization will be introduced before 2014 - the model will be ready by the end of this year, and then the reorganization will start. The introduction of new work with EU funds models will go along with administrative-territorial reform. Most likely the number of municipalities will be reduced and the functions of governors and others will be improved.

Another new aspect in the management of EU funds is related to the fact that a **“think-tank” from the World and the European Investment Bank** will assist Bulgarian experts in the successful implementation of European projects. The EC officially allowed Bulgaria to use European money paying the specialists of the two financial institutions. They will work with Bulgarian experts and will participate in the presentation of projects in the EC.

At the end of September 2011 the European Commission outlined the **“Roadmap” of the EU by 2020**, based on economic growth and rational use of resources. The “Roadmap” aims to make Europe's economy stable by 2050. The roadmap for the rational use of resources outlines how to

achieve effective growth that is essential for the prosperity of the EU in the future. It identifies economic sectors that consume the most resources and provides guiding tools and indicators for the EU and beyond. The map is a plan for growth and competitiveness, based on the use of fewer resources, while producing goods and creating business opportunities and jobs through activities such as recycling, better product design, replacement of material and environmental engineering. “Green growth” is the only form of sustainable development in the future of the EU and the world.